

# ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Maze Analyst: Angela Raygoza Bill Number: AB 1005  
Related Bills: None Telephone: 845-7814 Amended Date: March 27, 2007  
Attorney: Douglas Powers Sponsor: \_\_\_\_\_

**SUBJECT:** Involuntary Conversions/Non-recognition Of Gain/Approval Of Instrument

### SUMMARY

This bill would require government agencies to provide approval for certain land transactions.

### SUMMARY OF AMENDMENTS

The March 27, 2007, amendments repealed language that would have required a public entity to provide a letter of friendly condemnation within a reasonable time pursuant to a land transaction and instead added the provisions discussed below.

This is the department's first analysis of this bill.

### PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to disclose all steps involved with public land acquisition.

### EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2008.

### POSITION

Pending.

### ANALYSIS

#### FEDERAL/STATE LAW

An "involuntary conversion" as defined by federal and state tax law is the destruction of property in whole or in part, the theft of property, the seizure of property, the requisition or condemnation of property, or the threat or imminence of requisition or condemnation of property.

Under current federal law, an "involuntary conversion" may be a conversion into similar property or into money or into dissimilar property. In cases where property is converted into other property similar or related in service or use to the converted property, no gain shall be recognized regardless of when the disposition of the converted property occurred and regardless of whether the taxpayer elects to have the gain not recognized. If property is involuntarily converted into money or into property not similar or related in service or use to the converted property, the gain, if any, shall be recognized at the *election* of the taxpayer.

#### Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	<u>  X  </u> PENDING

#### Department Director

#### Date

Selvi Stanislaus

4/12/07

Existing state law parallels federal rules with respect to involuntary conversions except that the statutory period for assessment attributable to a gain relating to an involuntary conversion is four years for California versus three years for federal.

### THIS BILL

This bill would provide that if a taxpayer elects to exempt from current recognition any gain pursuant to Section 1033 of the Internal Revenue Code and that election is based upon any instrument, either written or electronic, from a state agency, department, board, or commission, the instrument shall be approved by the following:

- The secretary of the agency issuing the instrument, or
- The director of the department, board, or commission issuing the instrument and also by the secretary of the agency that has jurisdiction over the issuing department, board, or commission.

### IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

This bill would allow the exemption election of an involuntary conversion based on any instrument either written or electronic. The election stems from the involuntary conversion, not the instrument. The author may wish to amend the bill if the election is intended to be based on the instrument. It is also recommended that the taxpayer be required to provide a copy of the instrument to the department upon request.

### **OTHER STATES' INFORMATION**

The change proposed by this bill would not alter the underlying tax aspects of the exemption so that a comparison with other states' tax laws would not be informative.

### **FISCAL IMPACT**

This bill would not impact the department's costs.

### **ECONOMIC IMPACT**

This bill would only modify the approval process of a taxpayer's election, without changing the underlying tax aspects of the election. Accordingly, this bill would have no impact on state income tax revenues.

### **LEGISLATIVE STAFF CONTACT**

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